PEPSICO: BYE-BYE SODA!

STRATEGY ANALYSIS OF PEPSICO

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INTRODUCTION

There is no denial the fact that change is constant. For long we have heard about “Cola Wars” between the world’s two multibillion dollar duopolistic brands in the industry of food and beverage- PepsiCo and Coca Cola. But the facts (Exhibit 2) show that carbonated drinks is soon going to be replaced by healthier non carbonated alternatives- Ready to Drink, RTD Tea, Energy/Sports Drinks, Bottled Water and Fruit/ Vegetable Juice. Not only consumers are becoming health conscious but also government is pressuring them to restrict sugary drinks in order to avoid obesity epidemic. With changing socio cultural influences and impactful political legal pressures, is Pepsi and Coca Cola’s fate in jeopardy?

PRODUCT SEGMENTATION vs MARKET SEGMENTATION

PepsiCo and Coca Cola have segmented their businesses geographically (Exhibit 3). It clearly shows the dominance of coca cola in the entire beverage linked geographical segments as demarcated by PepsiCo. This is because the current global market size is dominated by carbonated beverages (Exhibit 3) and coca cola drives 78% of its revenue from carbonated drinks as compared to 20% of PepsiCo (Exhibit 2). In fact 48.6% of carbonated drink market share is captured by Coca Cola. It also justifies the high net income margin of Coca Cola over PepsiCo. But it doesn’t imply that PepsiCo is lagging behind Coca Cola. Future trends shed light on the emergence of non carbonated drinks. Luckily PepsiCo has comparatively higher share in non carbonated sector (30%) than coca cola (22%). Moreover it has complementary snacks business which is also profit making and growing steadily. Asia Middle East and Africa (AMEA) recorded the highest increase in volume growth (8%) as compared to other segments and increasing Hispanic population is the one popularly targeted (Exhibit 2).

INDUSTRY STRUCTURE

Presently Food and Beverage Industry witnesses duopolistic competitors- PepsiCo and Coca Cola. Both have left no stone unturned to adapt with the changing industry trends and pose greater threat to new comers. Exhibit 4 shows Porter’s Five Force Analysis.

There are a number of factors in both the directions for potential entrants to get visible.

-The need for a large volume of production and sales to reach the cost level per unit of production for profitability limits the entry, A large capital investment per unit of output in facilities limits the entry, Large amount of time and money is required to create a competing brand product. Well established brands like Coca Cola and PepsiCo can retaliate or coordinate with each other to defend their strong positions, Extensive supply chain is another huge problem for new entrants. Since US dollar is comparatively stronger than many global currencies, it doesn't benefit much to export huge quantities. There are increased government regulations for sugared beverages and cyclical nature of industry too irritates the firms.

Low switching cost is a big attraction to new entrants and substitutes. High industry growth rate (25% for RTD in US in last 2 years) is a sweet temptation. Moreover bargaining power of suppliers is low due to risk of backward integration by bug giants.

It has also been seen that there is cross price elasticity in beverage industry. With slight increase in rate of , say, Pepsi the quantity demanded for Coca Cola will tremendously increase and vice versa. Moreover there exists income price elasticity which leads to reduced consumption at the time of inflation and recession.

All in all its moderately attractive industry with moderate rivalry. PepsiCo has a strong global footprint and its adaptability to changes will help it to sustain for decades to come.

SUSTAINABLE COMPETITIVE POSITION

PepsiCo has built and maintained its sustainable competitive position by emphasising on 4 major verticals (Exhibit 5):

-Human Sustainability: Vast portfolio of nutritious, great tasting and convenient food and beverage gives PepsiCo competitive advantage over its competitors. Its "good for you" category of products is widely endorsed globally. At present there is no other player in world offering such broad range of products in its portfolio. It has spent 0.7 billion USD in Research and Development and around 4 billion in advertising alone.

-Environmental Sustainability: From sustainable farming to recycling waste, from water harvesting to reducing carbon footprint PepsiCo has proved to be nature's best friend.

-Global Citizenship: It included activities like employment generation, resource utilization etc. It creates and gains access to sustainable farms to fully utilize agricultural resources.

-Talent Sustainability: Human Rights, Health & Safety, global training to improve standard of living of all.

Apart from these 4 verticals, PepsiCo has been actively involved in Mergers and Acquisitions (M&As) for example Gatorade which is now the most popular sports drink.

CHANGING INDUSTRY

Exhibit 2 shows the drastic change going to face the beverage industry. Sports/Energy Drink and Ready to Drink Tea will soon become replacement for Pepsi or Coke. Exhibit 6 shows upcoming Energy Drink industry overview. It is mainly dominated by Redbull and Monster. PepsiCo owns Amp, Starbucks Bottled Drinks, Mountain Dew Kickstart but they represent small share in market. Matter of concern is that Coca Cola has bought 17% stake in monster beverage company which owns whopping 39% market share in energy drink market. Pepsico may go ahead and buy stakes in Redbull or Rockstar. Exhibit 7 shows RTD tea/coffee industry overview. Partnership with Unilever (Lipton) and pureleaf had been of great importance in justifying its market share. Also, Fuze Tea and Gold Peak brands joined Coca Cola's $1 billion club increasing its share in non carbonated beverage sector. Dr. Peppers Snapple is already a big player in this industry. Competition is no less and PepsiCo has to perform well in this sector to retain competitive advantage. It can go ahead with Matcha and other RTD tea innovations. Diverting a significant share of R&D into RTD is of utmost importance now.

FIRM SCOPE

Exhibit 8 and 9 display the BCG matrix developed for both PepsiCo and its competitor on Microsoft excel. BCG Matrix for PepsiCo shows that Latin America Food sector is having major relative market share and good market profitability. This must be built. Whereas other sectors are moving from Question Marks to Stars and hence must be held tightly. Quaker Food North America can directly go from question mark to dog if market share remain low for long time. Suitable supply chains must be explored to increase its global market share. Market Growth and relative market share of Europe segment is very poor but it can be held because same is the case with its competitors. Because of Latin America's Food's largest market share, new RTD drinks and energy drinks can be included in its portfolio to quickly reach huge customer base. India, the world's second largest producer of fruits and vegetables, throws away fresh produce worth millions of dollars every year because of the country's lack of adequate cold storage facilities and refrigerated transport. PepsiCo can help augment fruit sales for Indian farmers by adding fresh fruit juices to their fizzy drinks.

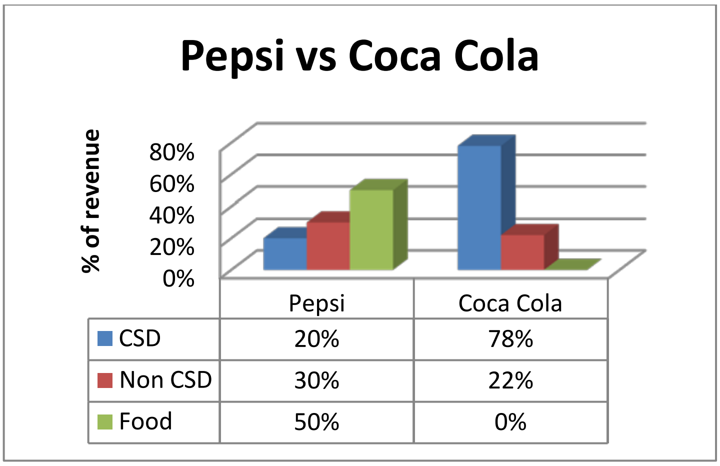
CONCLUSION

With changing market trends PepsiCo has to change itself to suit customers need in more healthy and more sustainable way. More R& D in RTD coffee/ tea sector is paramount (matcha and other innovation). Newly acquired products and existing non carbonated products must be included in Latin America Food segment to enjoy its high relative market share. PepsiCo should look forward to buy some shares of Redbull or rockstar energy drink. It can also promote and implement packaged delivery of snacks and beverages which are often bought together at some discount.

EXHIBIT 1- PRODUCT SEGMENTATION & CSDs vs Non CSDs

Product Segments	Sub categories
Carbonated Soft Drinks (CSDs)	Includes well-known brands and lesser-known household and private label brands sold in supermarkets and discount chains
Fruit Beverages	Includes 100% fruit juices, juice drinks (which contain less than 100% juice), and fruit-flavoured drinks with no juice
Bottled Waters	Includes bottled spring and filtered water along with flavoured waters and waters enhanced with vitamins and minerals
Functional Beverages	Includes energy drinks, relaxation drinks, and ready-to-drink (RTD) teas and coffees
Sports Drinks	Includes both liquid and powdered sports formulas
Other	Includes ice manufacturing, dairy-based drinks, and soy-based drinks

DRINKS	Carbonated Soft Drinks (CSD)	Non-Carbonated Soft Drinks (Non CSD)	Snacks & Food
Pepsi	Pepsi	Gatorade sports drinks	Lay's
	Mountain Dew	Tropicana	Doritos
	Diet Pepsi	Lipton (Ready to drink tea- Unilever)	Quaker
	7 Up	Aquafina	Cheetos
	Miranda	Brisk	Ruffles
	Pepsi Max	Starbucks RTD Beverages	Tostitos
	Sierra Mist	Pure Leaf (RTD Tea)	Fritos
	Diet Mountain Dew		Walkers
Coca Cola	Coke	Dasani bottled water	
	, Sprite,	Glaceau VitaminWater	
	Fanta,	POWERade sports drinks	
	Diet Coke,	Minute Maid and Minute Maid To Go juices	
	Coca Cola Zero	Aquarius sports drinks	
		Nestea	
		Fuze Tea, Gold Peak, Honest Tea (Ready to Drink Tea)	
		Odwalla	
Dr. Pepper	7Up	Hawaiian Punch	
	Dr. Pepper	Snapple (US Operations)	
	Canada Dry		



	Pepsi	Coca Cola
CSD	20%	78%
Non CSD	30%	22%
Food	50%	0%

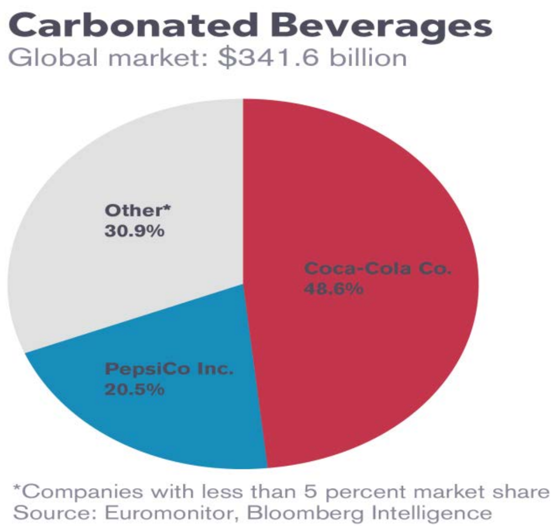
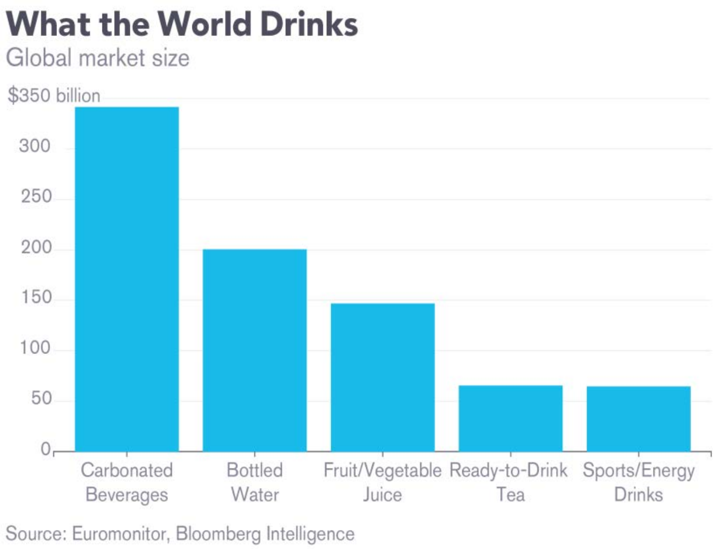
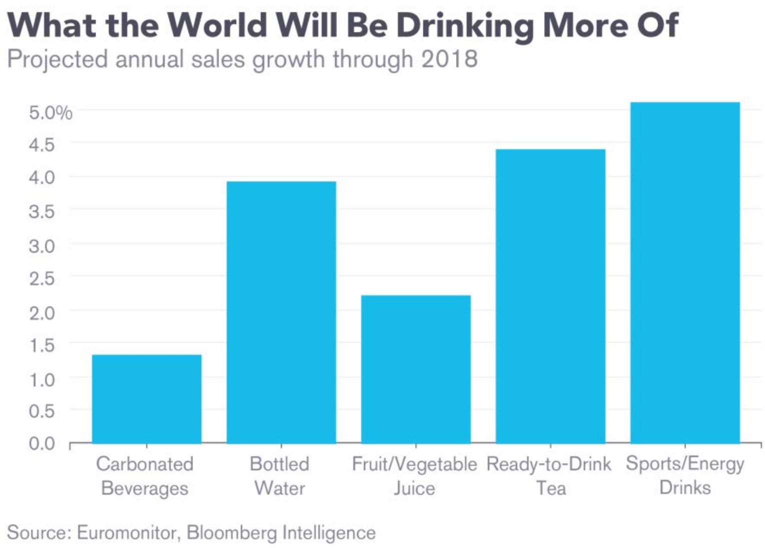
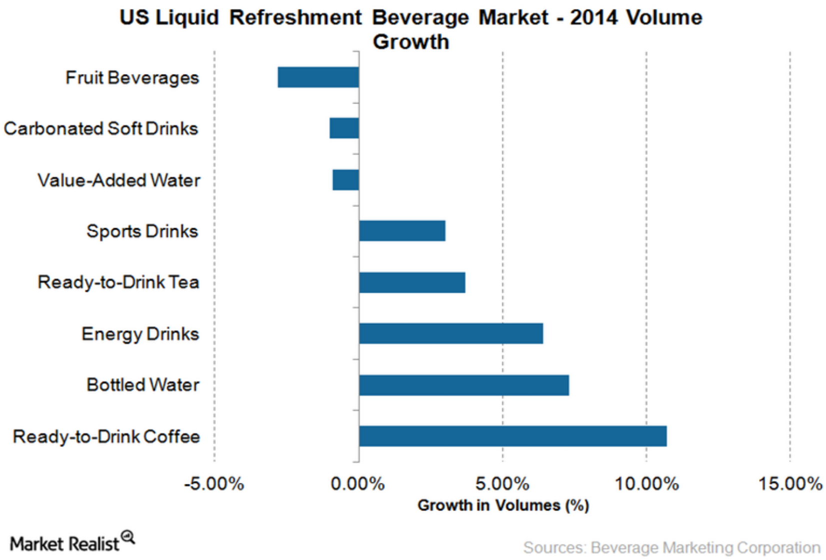
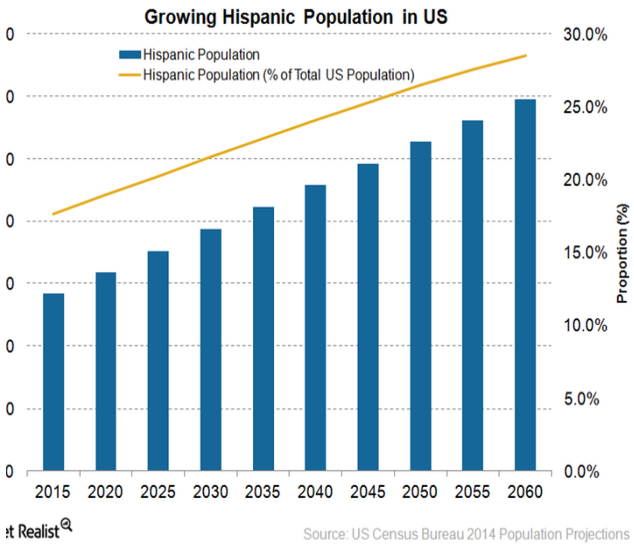


EXHIBIT 2- FUTURE TRENDS & DEMOGRAPHIC ANALYSIS [1] [2]



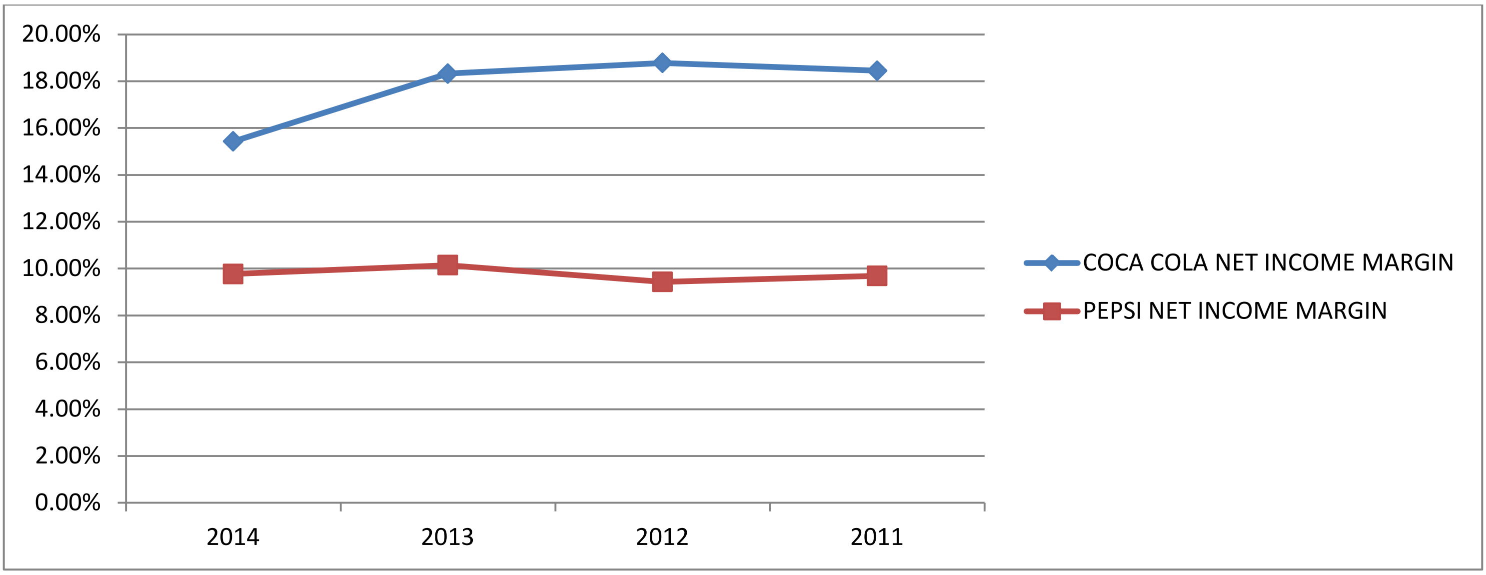


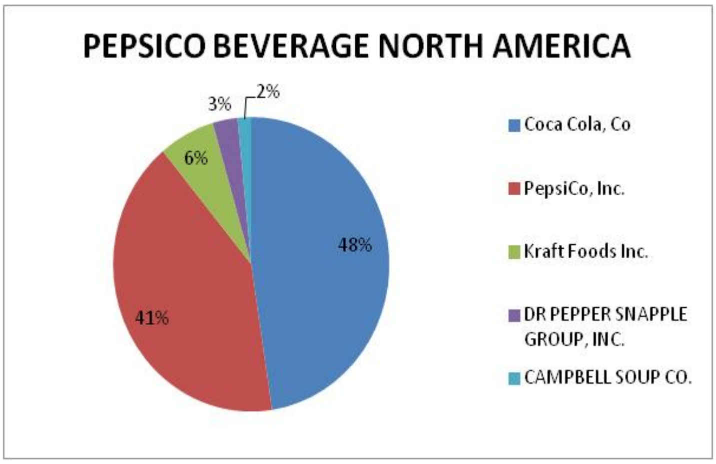


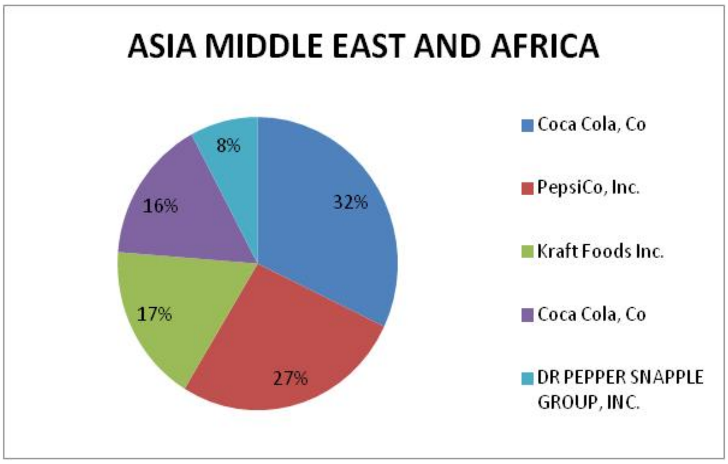


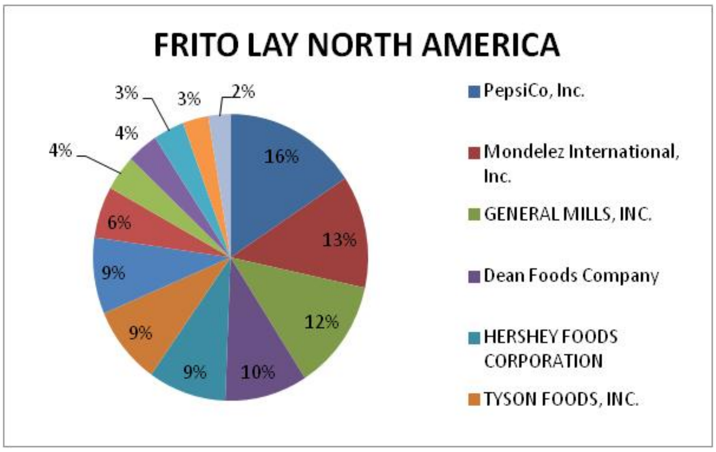
Pepsico Segment	Snack Volume Growth
Frito-Lay North America (FLNA)	2%
Quaker Foods North America (QFNA)	0%
Latin America Foods (LAF)	-2%
PepsiCo Americas Beverages (PAB)	N/A
Europe	2%
Asia, Middle East, & Africa (AMEA)	8%

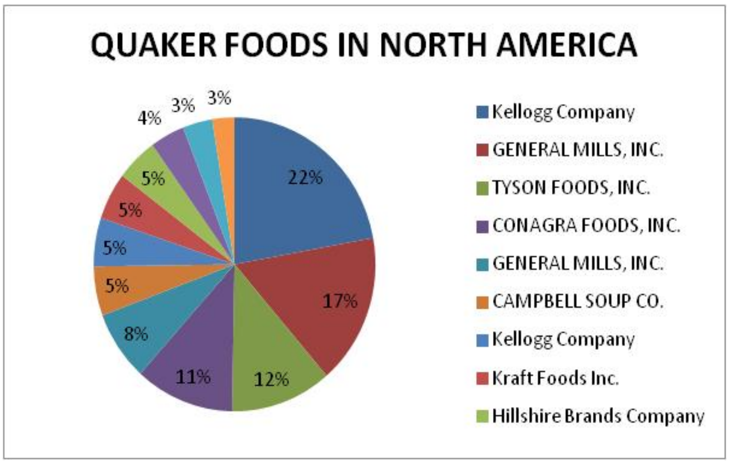
EXHIBIT 3- COMPETITOR ANALYSIS AT A GLANCE [3], [4]

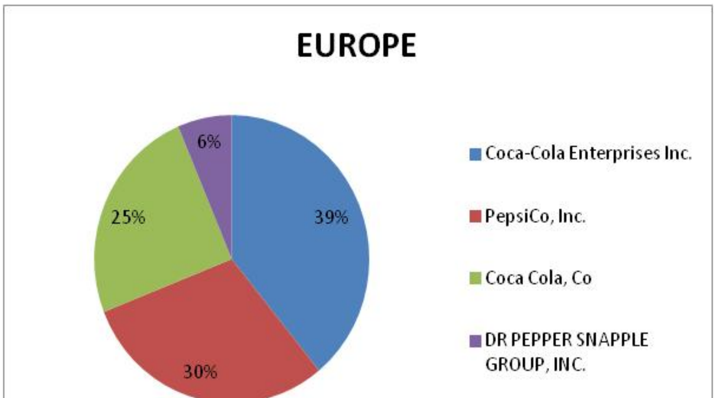












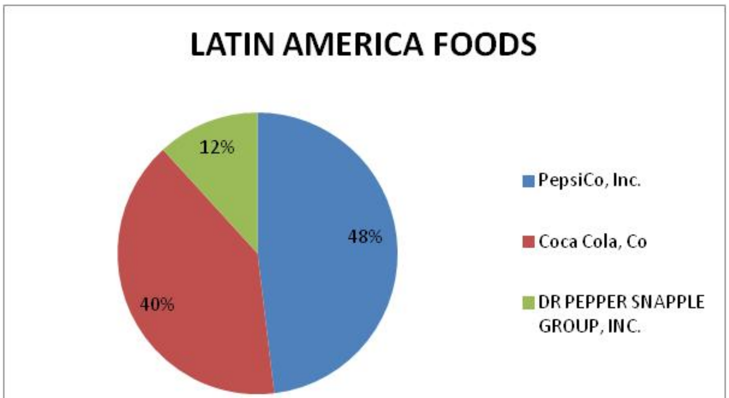


EXHIBIT 4- PORTERS FIVE FORCE ANALYSIS

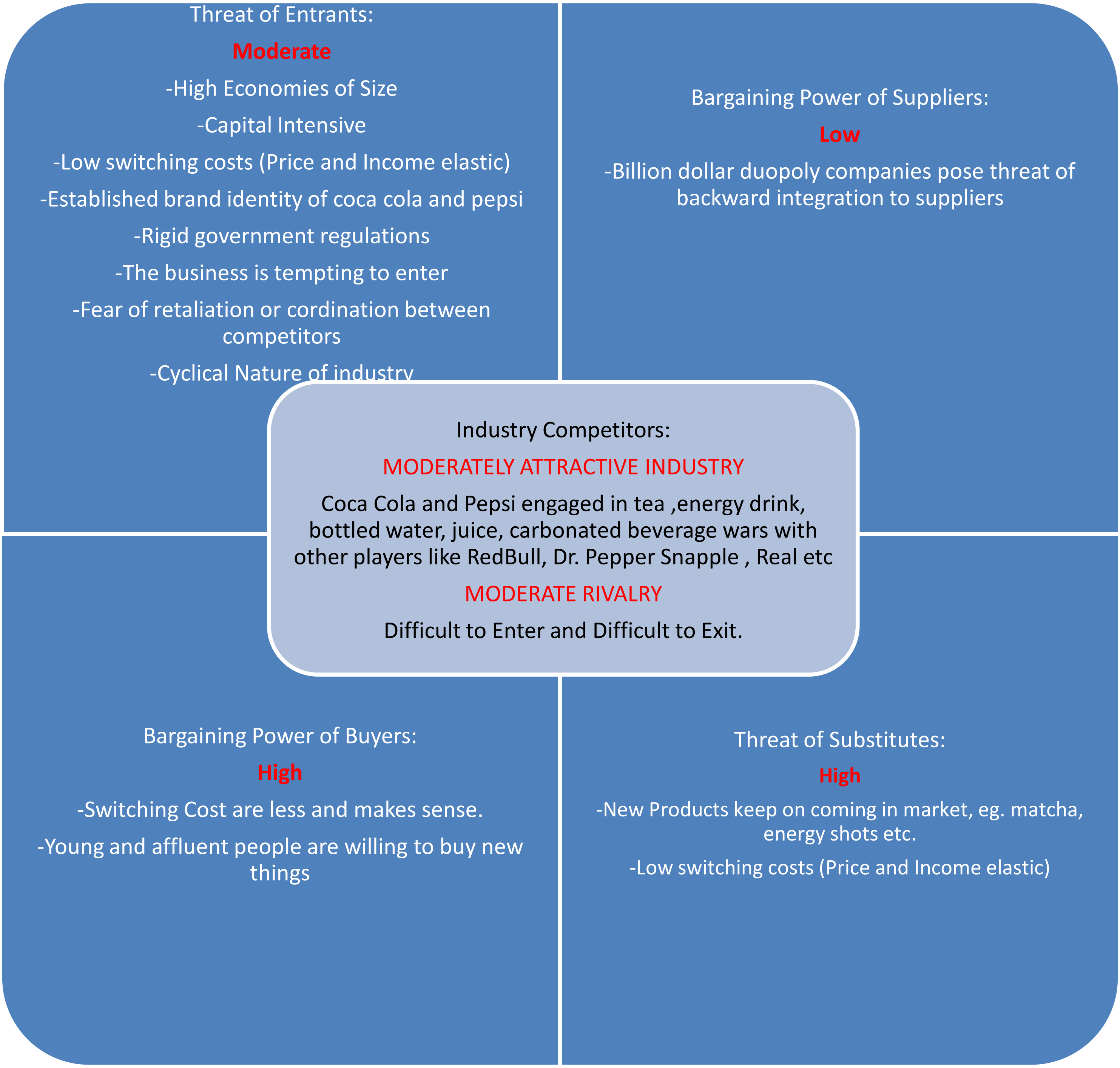


EXHIBIT 5- CAPABILITY ANALYSIS WRAPPED AROUND ENVIRONMENTAL GLOBAL DEMAND[5]

Human Sustainability

Broadening Portfolio : Vast portfolio of nutritious, great-tasting and convenient foods and beverages : **Good-For-You, Better-For-You and Fun-For-You**

Responsible Marketing: Provision of clear nutrition information on the products

Promoting Healthy Lifestyles: Some of PepsiCo's major brands, including Gatorade, sponsor countless sporting events, races and other athletic competitions of all sizes and scopes, from sponsoring teams at the New York City Marathon to sponsorship of the TransRockies Run

Environemental Sustainabiltiy

Water: In 2013, PepsiCo's operational water efficiency programs achieved estimated water flow savings of more than 14 billion liters, which translated into cost savings of nearly $15 million

GHG Emissions: 42 facilities across PepsiCo have achieved LEED certification.

Sustainable Agriculture: PepsiCo's Sustainable Farming Initiative was piloted in 2011 and 2012 across 14 countries and officially rolled out in 2013 across the U.S., the U.K., Brazil, Chile, Argentina and Mexico

Packaging, Reycling & Waste : As part of commitment to reducing waste, PEPSI has been reusing its Frito-Lay shipping cartons multiple times since 2012

Responsible Sourcing: In 2013, Naked Coconut Water became one of the first Fairtrade- certified coconut waters to be sold in the United States

Global Citizenship

Encouraging healthy lifestyles;

Improving availability of affordable nutrition;

Expanding access to clean water;

Enhancing sustainable agriculture capability;

Enabling job readiness; and

Empowering women and girls

Talent Sustainability

Diversity & Inclusion: As a company doing business in more than 200 countries and territories, diversity and inclusion are essential to its success

Professional Development: PepsiCo conducts training for associates, from the frontline to senior management, to make sure they have the knowledge and skills necessary to achieve performance goals in a dynamic business environment.

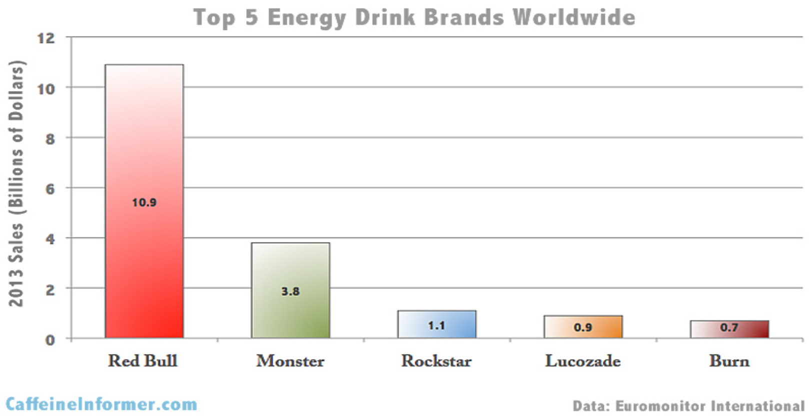
Human Rights: to respect human rights in the workplace and across the supply chain

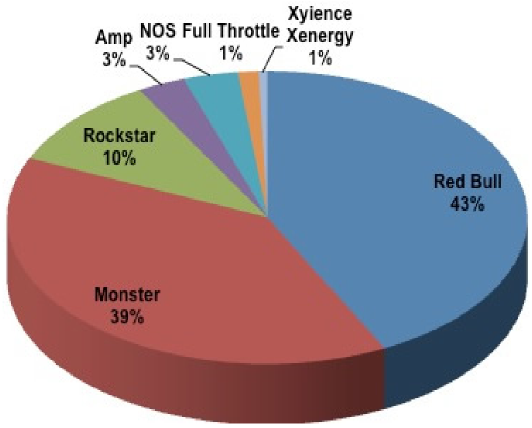
Health & Safety: first priority as a company is the safety, health and well-being of our associates around the world

Celebrating Achievement: PepsiCo honors outstanding talent around the world

EXHIBIT 6- UPCOMING ENERGY DRINK MARKET OVERVIEW [6]

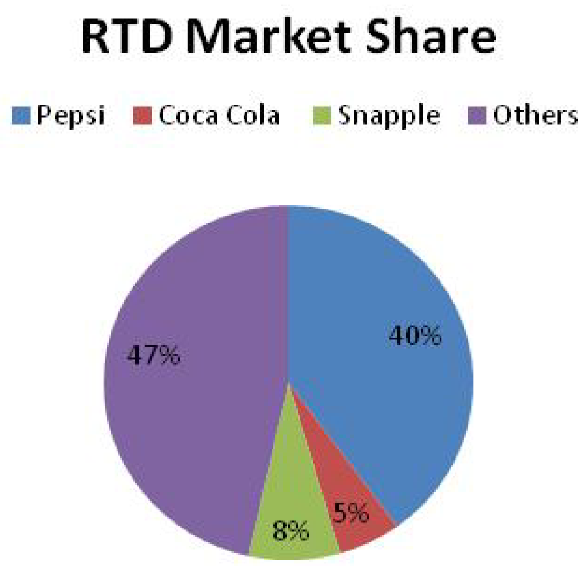
Worldwide Top 5 Energy Drinks   ENERGY DRINK Market Share





- Coca Cola owns Nos and Burn.
- Pepsi Co. owns Amp, Starbucks bottled drinks, Mountain Dew Kickstart but sold No Fear.
- Monster also owns Worx Energy Shot.
- Coca-Cola just bought a 17% Stake in the Monster Beverage Company. Monster will take over Coke's Energy Drink Brands

EXHIBIT 7- UPCOMING READY TO DRINK TEA/COFFEE MARKET OVERVIEW [7]



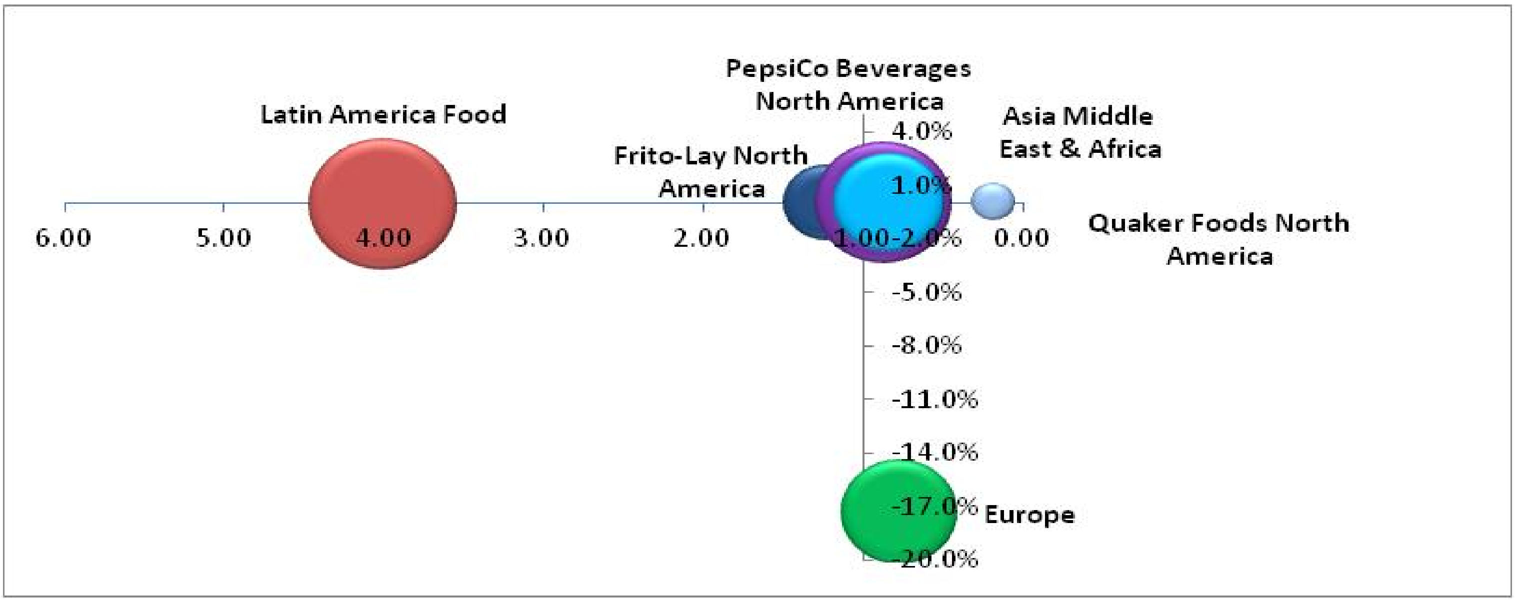
- From 2011 to 2013, sales for specialty RTD tea and coffee at U.S. retail stores increased 25%. Domestic iced tea growth of 3%, measured by volume, beat juice and sports drinks last year.

- Ready-to-drink tea sales have more than doubled in the last 10 years, reaching $5.3 billion in the U.S. and about $50 billion globally in 2014, according Euromonitor International, which tracks the industry.

- PepsiCo gained its market share through a partnership with Unilever, which owns Lipton. Together, they re-launched Pure Leaf in 2012 with a redesigned bottle. Pure Leaf has a larger market share than all of Coke's iced teas labels combined.

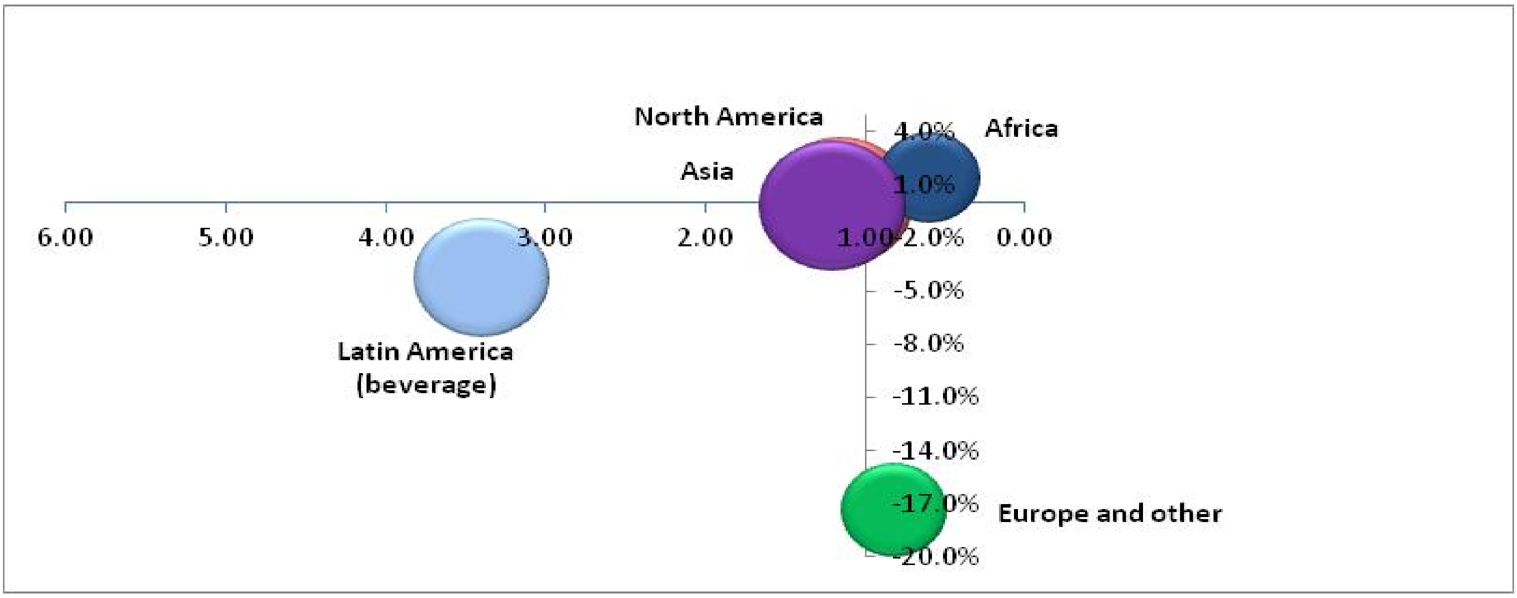
- Pure Leaf sales surged 49 percent last year, driving growth of 7.9 percent in the number of cases of tea it sold across all brands, according to Beverage Digest.

EXHIBIT 8- BCG MATRIX (EXCEL VERSION) DEVELOPED FOR PEPSICO



SEGMENT NAME	Market Growth	Relative Market Share	Market Share
Latin America Foods	-4.25%	4	48.10%
Frito-Lay North America	2.64%	1.23	15.67%
PepsiCo Beverages North America	3.47%	0.87	41.36%
Quaker Foods North America	5.54%	0.18	3.98%
Europe	-17.36	0.77	29.97%
Asia Middle East & Africa	0.08%	0.83	26.69%

EXHIBIT 9- BCG MATRIX (EXCEL VERSION) MADE FOR COCA COLA



SEGMENT NAME	Market Growth	Relative Market Share	Market Share
North America	0.03	1.15	47.59%
Africa	1.39	0.60	23.42%
Asia	-0.21	1.20	48.15%
Latin America	-4.25	3.39	40.09%
Europe & other	-17.36	0.82	24.59%

EXHIBIT 10-REFERENCES

[1] http://www.bloombergview.com/articles/2015-01-21/still-sweet-on-coke-and-pepsi-
[2] http://marketrealist.com/analysis/stock-analysis/consumer/beverages/charts/
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